

Message Text

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SUBJECT: NATIONAL BANK FOR ECONOMIC DEVELOPMENT LOWERS
INTEREST RATES ON LOANS

BEGIN UNCLASSIFIED

1. SUMMARY: THE NATIONAL BANK FOR ECONOMIC DEVELOPMENT (BNDE) ANNOUNCED EFFECTIVE APRIL 2, A REDUCTION IN ITS INTEREST RATE STRUCTURE, TO 3-5 PERCENT RANGE FROM 5-8 PERCENT RANGE, WHILE ADOPTING OPERATING PHILOSOPHY OF "ZERO PROFIT." OFFICIAL SPOKESMAN BILL CHANGE AS PART OF GOVERNMENT'S EFFORT TO STIMULATE THE DEVELOPMENT OF THE PRIVATE SECTOR. MOVE CAN ALSO BE SEEN, HOWEVER, AS AN EFFORT TO BOOST INVESTMENT DEMAND AT A TIME WHEN THE ECONOMY IS IN A STATE OF TRANSITION. END SUMMARY.

2. THE NATIONAL BANK FOR ECONOMIC DEVELOPMENT (BNDE),

AN OFFICIAL CREDIT AGENCY, REDUCED, EFFECTIVE APRIL 2,
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1975, ITS INTEREST RATES ON LOANS TO THE 3-5

PERCENT RANGE FROM PREVIOUS 5-8 PERCENT RANGE.
THIS ACTION WAS MADE POSSIBLE, IN PART, BY A
SIMULTANEOUS ANNOUNCEMENT BY THE BANK ADOPTING
AS ITS OPERATING PHILOSOPHY "ZERO PROFIT." IN
THE PAST FEW YEARS, BNDE OPERATING PROFITS HAVE
AMOUNTED TO ABOUT 1.0 PERCENT OF PUBLIC SECTOR
SAVINGS. IN ABSOLUTE TERMS, IN 1973 SUCH PROFITS
TOTALLED 171 MILLION IN 1968 CRUZEIROS. THE NEW
RATES OFFERED BY THE BNDE ARE THE LOWEST AVAILABLE
FROM THE DOMESTIC FINANCIAL SYSTEM. MONETARY
CORRECTION ON BNDE LOANS ARE LIMITED TO A MAXIMUM
OF 20 PERCENT IN 1975, BASED ON PROVISIONS PREVIOUSLY
TAKEN BY THE ECONOMIC DEVELOPMENT COUNCIL.

3. THE SECTORS THAT WILL BENEFIT MOST UNDER THE
NEW INTEREST RATE STRUCTURE ARE THE BASIC INPUT
SECTOR (MINING, FERTILIZERS, PAPER AND CELLULOSE)
AND THE CAPITAL GOODS INDUSTRY, BOTH OF WHICH WILL
RECEIVE 3 PERCENT LOANS, IF THE VALUE OF THE
IMPORTED EQUIPMENT GOING INTO THE PROJECT BEING
FINANCED IS LESS THAN 40 PERCENT OF TOTAL EXPENDITURES.
(THE RATE GOES TO 4 PERCENT IF THE 40 PERCENT LIMIT
IS EXCEEDED). ADVANTAGEOUS CREDIT TERMS FOR THESE KEY SECTORS
IS IN LINE WITH THE GOVERNMENT'S OBJECTIVE OF
SPEEDING UP IMPORT-SUBSTITUTION FOR BASIC PRODUCTS.
ALSO, PROJECTS IN THE UNDERDEVELOPED REGIONS WILL
RECEIVE FAVORED TREATMENT.

4. THE BNDE, TOGETHER WITH NINE STATE DEVELOPMENT
BANKS, THE BANK OF THE NORTHEAST AND THE BANK OF
THE AMAZON (ALL CLASSIFIED AS DEVELOPMENT BANKS),
EXTEND ABOUT 8.0 PERCENT OF THE FINANCIAL SYSTEM'S
CREDIT TO THE COMMODITY PRODUCING SECTORS. BY
REDUCING ITS INTEREST RATE, THEREFORE, THE BNDE SHOULD
DEFINITELY STIMULATE INVESTMENT DEMAND. ALTHOUGH THE BNDE
IS AN OFFICIAL CREDIT AGENCY, ACCORDING TO ITS PRESIDENT IT
MADE 80 PERCENT OF ITS LOANS DURING 1974
TO (PERHAPS ON A LIBERAL DEFINITION OF THIS SECTOR) THE
PRIVATE SECTOR. END UNCLASSIFIED

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5. COMMENT: THE LATEST CHANGE IN BNDE POLICY IS
BEING BILLED BY OFFICIAL SPOKESMEN AS A REAFFIRMATION
OF SUPPORT BY THE GOVERNMENT FOR THE DEVELOPMENT OF
THE PRIVATE SECTOR. AS INDICATIVE OF THIS, THE
PRESIDENT OF THE BNDE ANNOUNCED THE INTEREST RATE
REDUCTIONS IN SAO PAULO IN THE PRESENCE OF FOUR
MINISTERS. SPEAKING DURING THE CEREMONIES ON BEHALF

OF THE GOVERNMENT, PLANNING MINISTER VELLOSE UNDER-
LINED THE GOVERNMENT'S SUPPORT OF THE PRIVATE SECTOR.
ALTHOUGH THERE ARE NO REASONS TO DOUBT THE GOVERNMENT'S
AFFIRMATIONS OF SUPPORT FOR THE PRIVATE
SECTOR, AN OUTSIDE, OBSERVER, HOWEVER,
MAY ASK WHETHER THE REAL PURPOSE OF THESE
INTEREST RATE REDUCTIONS MAY NOT HAVE BEEN TO STIMULATE
INVESTMENT DEMAND -- AT A TIME WHEN THE ECONOMY
IS IN A STATE OF TRANSITION -- AND THAT THE PRIVATE-
SECTOR-DEVELOPMENT-ASPECTS ARE JUST SIDE-EFFECTS
WHICH THE GOVERNMENT IS CHOOSING TO EXPLOIT TO
COUNTER RECENT CHARGES OF "ESTATIZACAO".
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